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AMEMBASSY LISBON

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C O N F I D E N T I A L SECTION 1 OF 4 HONG KONG 8111

CINCPAC FOR POLAD

E.O. 11652: XGDS-3
TAGS: PFOR, CH
SUBJECT: MID-YEAR PRC EXTERNAL POLITICAL ASSESSMENT

REF: HONG KONG 7467

SUMMARY. INDICATIONS CONTINUE TO BE MIXED ABOUT HOW THE DOMESTIC POLITICAL MOVEMENT MAY BE AFFECTING PRC FOREIGN RELATIONS. THERE HAS BEEN SOME DEFINITE TIGHTENING UP ON CULTURAL AND IDEOLOGICAL ISSUES INVLOVING FOREIGNERS AND FOREIGN CONTACTS. HOWEVER THE BASIC RATIONALE AND OVERALL DIRECTION OF THE U.S.-PRC RELATIONSHIP CONTINUES TO BE ACCEPTED BY PRC LEADERS OF ALL PERSUASIONS AND THIS WAS UNDERSCORED BY THE RECENT EXTRAORDINARY RECEPTION ACCORDED SEVERAL IMPORTANT U.S. VISITORS TO CHINA. NEW THEMES WHICH HAVE APPEARED DURING THE PERIOD HAVE DOWNGRADED THE DIRECT AND NEAR-TERM SOVIET THREAT TO THE PRC WHILE STRESSING THE INEVITABILITY OF WAR BETWEEN THE U.S. AND USSR SUPERPOWERS AND THE PRIORITY OF THE WEST OVER THE EAST AS THE MAIN TARGET OF SOVIET AGGRESSION. THESE NEW THEMES, WHICH WERE LIKELY ORIGINATED BY MAO AND PROBABLY FAVORED BY PRC LEFTISTS, FITS MORE COMFORTABLY WITH THE OVERALL CONTEXT OF THE DOMESTIC IDEO-OGICAL CAMPAIGN. CHIEF SOVIET BORDER TALK NEGOTIATOR ILICHEV HAS RETURNED TO PEKING BUT THUS FAR IT IS UNCLEAR WHETHER NEW PROPOSALS ARE FORTHCOMING FROM EITHER SIDE. PEKING CONTINUES TO GIVE SPECIAL ATTENTION IN VARIOUS INTERNATIONAL FORUMS TO BURNISHING ITS CLAIM TO THIRD WORLD MEMBERSHIP AND TO A STANDARD BEARER ROLE AGAINST SUPERPOWER HEGEMONIC EFFORTS TO SEIZE WORLD RESOURCES. END SUMMARY.

1. AT MID-YEAR, INDICATIONS WERE MIXED ABOUT HOW THE INTERNAL POLITICAL MOVEMENT WAS AFFECTING PRC FOREIGN RELATIONS. ON THE ONE HAND, THE LEFTISTS APPEARED TO HAVE WON THEIR POINT AT LEAST ON CULTURAL AND IDEOLOGICAL ISSUES. THE RESULT ESSENTIALLY HAS BEEN TO HIGHLIGHT FOR THE CHINESE PEOPLE THE AMBIVALENCE IN CHINA'S NEW RELATIONS WITH THE BOURGEOISIE WORLD. THE MESSAGE CONFIDENTIAL

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IS THAT WHILE CHINA'S ESTABLISHMENT OF DIPLOMATIC AND TRADE RELATIONS WITH THE CAPITALISTS IS A CRAFTY AND USEFUL MOVE, IT BY NO MEANS OBVIATES THE IDEOLOGICAL SCHISM BETWEEN THESE SOCIETIES ON THE ONE HAND AND SOCIALIST CHINA ON THE OTHER. WHILE THERE MAY BE EXPEDIENT UNITY AND COOPERATION IN SOME FIELDS, IDEOLOGICAL STRUGGLE MUST NOT BE FORGOTTEN.

2. DECISIONS TO TIGHTEN UP IDEOLOGICALLY WERE APPARENTLY MADE

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DURING LEADERSHIP DISCUSSIONS EARLIER IN THE YEAR. AT THAT TIME THOSE RESPONSIBLE FOR FOREIGN AFFAIRS, INCLUDING WE IMAGINE CHOU EN-LAI OR THOSE CLOSE TO HIM, PROBABLY HAD TO ADMIT THAT SOME MISTAKES HAD BEEN MADE--NOT IN LINE BUT IN THE IMPLEMENTATION OF THE AGREED POLICY OF DETENTE. THE RECENT CANCELLATION OF THE VANCOUVER SYMPHONY AND THE OUSTER OF THE U.S. MARINE GUARDS AT USLO, FOR EXAMPLE, REPRESENTED REVERSALS OF DECISIONS MADE A LITTLE MORE THAN A YEAR AGO. THE EARLIER ATTACK ON ANTONIONI, WHICH DIED DOWN DURING THE SECOND QUARTER, ALSO IMPLIED SOME CRITICISM OF STATE COUNCIL AND PARTICULARLY FOREIGN AFFAIRS PERSONNEL.

3. THE REGIME HAS NOW INSTITUTED TIGHTER CONTROLS OVER FOREIGN MEDIA REPRESENTATIVES, INCLUDING APPARENTLY A "LACK LIST" OF SORTS, AND IT HAS ADOPTED A MORE NARROW VIEW OF "FRIENDLY" CRITICISM. IN OTHER REVERSLAS, PEKING EXCLUDED U.S. CONGEN OFFICIALS AS WELL AS MOST FOREIGN NEWSMEN FROM THE CANTON FAIR, POSTPONED THE VISIT OF AN OFFICIAL CHINESE TRADE DELEGATION TO THE U.S., AND CANCELLED PRC STUDENT EXCHANGE ARRANGEMENTS WITH THE UK FOLLOWING THE DEFECTION OF ONE PRC STUDENT IN LONDON. IN CONTRAST TO TREATMENT OF THE U.S. ONE YEAR AGO, CHINESE MEDIA ALSO KEPT UP A STEADY ONE-SIDED DEROGATORY PICTURE OF U.S. (AND EUROPEAN) SOCIETY INCLUDING REFERENCES TO THE "U.S. RULING CLIQUE." THE CAMPAIGN PUBLICIZING CONTRIVED HORROR STORIES OF ALLEGED AMERICAN AND FOREIGN ATROCITIES IN CHINA DURING THE PRE-COMMUNIST PERIOD ALSO CONTINUED AND WAS IN FACT VISIBLE IN THE CAPTAL CITY. THIS PROPAGANDA WAS CONCURRENT WITH A RENEWAL OF PRAISE FOR THE SPIRIT OF THE BOXERS AND AN ARTICLE IN THE SHANGHAI JOURNAL STUDY AND CRITICISM TYING LIN PIAO FOR THE FIRST TIME TO "U.S. IMPERIALISM." TOWARD THE END OF THE QUARTER,

HOWEVER, THERE WAS SOME ENCOURAGING PICKUP ON CULTURAL SIDE AS VARIOUS U.S. ACADEMIC SPECIALIST AND FRIENDSHIP GROUPS VISITED CHINA
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AND THE PRC WUSHU GROUP BEGAN A U.S. TOUR THAT WAS WELL PUBLICIZED IN THE CHINESE MEDIA.

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4. AMID THESE ADJUSTMENTS AND THE VARIATIONS IN ATMOSPHERE,

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THERE WERE CLEARLY ETCHED SIGNS THAT THE OVERALL DIRECTION OF U.S.-SINO RELATIONS AS BASED ON THE SHANGHAI COMMUNIQUE CONTINUES TO BE ACCEPTED BY PRC LEADERS OF ALL PERSUASIONS. THIS WAS UNDERSCORED PARTICULARLY STRONGLY BY SEVERAL LATE-JUNE EARLY-JULY EVENTS. THE LAVISH COURT PAID BY A HOST OF TOP LEVEL PRC LEADERS, INCLUDING WANG HUNG-WEN AND CHIANG CHING, TO THE REVISIT OF FAMED AMERICAN PHYSICIST YANG CHEN-NING, WAS STRIKING. THIS WAS FOLLOWED BY THE JULY 1-6 VISIT OF SENATOR JACKSON THAT ENCOMPASSED LONG DISCUSSIONS WITH TENG HSIAO-PING AND CHIAO KUAN-HUA AND AN EXTRAORDINARY MEETING IN A HOSPITAL WITH AILING PREMIER CHOU EN-LAI. IT WAS HARDLY ACCIDENTAL THAT THESE VISITS AND THE ATTENDANT PUBLICITY COINCIDED WITH PRESIDENT NIXON'S SUMMIT TALKS IN MOSCOW, ALTHOUGH NO REFERENCE TO SENATOR JACKSON'S VIEWS ABOUT U.S.-SOVIET NOR U.S.-SINO RELATIONS HAS APPEARED YET IN THE PEKING MEDIA. ALSO ON THE UPBEAT SIDE WAS THE ATICLE OF FOREIGN TRADE MINISTER LI CHIANG IN CHINA'S FOREIGN TRADE QUARTERLY IN WHICH WHILE DECLARING THAT CHINA WOULD NEVER "GROVEL" FOR FROEIGN LOANS NOR SEEK JOINT VENTURES, ASSERTED THAT "CHINA BY NO MEANS WOULD CLOSE THE DOOR ON TRADE."

5. NEW THEMES SIGNIFICANTLY EMERGED IN CHINESE STATEMENTS IN THE SPRING PREDICTING AN INEVITABLE WAR BETWEEN THE U.S. AND THE USSR AND DISMISSING THE DIRECT AND NEAR-TERM SOVIET THREAT TO CHINA. THIS HAD THE EFFECT OF DEEMPHASIZING THE URGENCY OF THE SECURITY IMPERATIVE BEHIND CHINA'S IMPROVED RELATIONS WITH THE U.S., A CHANGE IN POSTURE WHICH WAS PROBABLY SEEN AS HAVING A DESIRABLE IMPACT ON INTERNAL AS WELL AS EXTERNAL AUDIENCES. WE IMAGINE THE NEW THEMES WERE PARTICULARLY WELCOMED BY THE LEFTIST ELEMENTS, BUT WE GUESS THAT THEY WERE ORIGINATED BY MAO, WHO WAS ATTEMPTING THEREBY TO SET THE LINE, STRENGTHEN THE CONSENSUS ON GLOBAL STRATEGY AND TAKE ACCOUNT OF NEW REALITIES.

6. AMIDST THE BULLISHNESS AND THE PROPHECY OF SUPERPOWER DOOM, HOWEVER, IT WAS MADE DISTINCLY CLEAR THAT THE STRATEGIC, CONFIDENTIAL

POLITICAL AND ECONOMIC JUSTIFICATIONS OF THE OPENING TO THE WEST, IN PARTICULAR TO THE U.S., REMAINED UNAFFECTED. THUS PRC MEDIA HAVE ONLY CARRIED BRIEF FACTUAL REPORTS ABOUT PRESIDENT NIXON'S SUMMIT TALKS. HOWEVER, PRC-OWND HONG KONG PRESS EXCERPTED FOEIGN COMMENTARIES TO CONVEY INDIRECTLY PEKING'S VIEW THAT THE SUMMIT ACHIEVED LITTLE, THAT U.S.-USSR DETENTE REMAINS A SHAM AND THAT U.S.-SINO RELATIONS ARE IMPROVING. CHINESE CONTINUED TO URGE VISITING EUROPEANS TO MAINTAIN UNITY WITH THE U.S. AND ADVISED JAPANESE TO BE SURE TO INCLUDE AMERICANS IN ANY ECONOMIC VENTURE THEY SHOULD ENTER INTO IN THE SOVIET UNION. IN ITS PICTURE OF SUPERPOWER CONTENTION PEKING CONTINUED TO PAINT THE U.S. AS ON THE DEFENSIVE AND RESPONDING TO SOVIET BUILD-UPS FROM THE INDIAN OCEAN TO THE NUCLEAR ARMS RACE. ALSO ON THE TOUCHY ISSUES OF KOREA AND INDICHINA THE PRC

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STUCK TO ITS RESTRAINED AND CAUTIOUS TREATMENT OF THE U.S. THIS WAS TRUE EVEN AS PEKING TRIED TO PICK UP POINTS WITH PYONGYANG AT MOSCOW'S EXPENSE BY REPEATING DPRK DEMANDS FOR IMMEDIATE U.S. MILITARY WITHDRAWAL FROM SOUTH KOREA. PEKING HAS, HOWEVER, CAREFULLY AVOIDED REPEATING BELLICOSE AND HARSH PRC CHARGES ABOUT ALLEGED U.S. INSTIGATION OF THE PAK GOVERNMENT TO "WAGE A NEW WAR" AND HAS KEPT ITS SUPPORT VERY MUCH IN THE CONTEXT OF KIM IL SUNG'S PEACEFUL REUNIFICATION PROPOSAL.

7. IN REGARD TO TAIW,, TENG HSIAO-PING IN A CONVERSATION WITH AN AUSTRIAN DELEGATION AT THE END OF MARCH STRESSED THE POSSIBILITY OF "PEACEFUL LIBERATION," A LINE WHICH HAD SEEMED TO BE UNDER A CLOUD AT THE BEGINNING OF THE YEAR. IN SUSEQUENT TALKS WITH VISITING U.S. GOVERNORS, CHINESE LEADERS EMPHASIZED THE STANDARD LIEN THAT TAIWAN WAS THE OBSTACLE TO NORMALIZATION OF U.S.-PCR RELATIONS, BUT THEY DID NOT COMPLAIN THAT THE U.S. HAD DEPARTED FROM THE SHANGHAI COMMUNIQUE. LOWER RANKING OFFICIALS, HOWEVER, WERE OCCASIONALLY REPORTED AS PROTESTING U.S. ACTIONS IN REGARD TO TAIWAN, SUCH AS THE POSITNG OF A NEW AMBASSADOR TO TAIPEI. VIEWED FROM HERE, THE CHINESE APPEAR TO WANT TAIWAN IN CENTER FOCUS FOR ANY FURTHER, MAJOR DEVELOPMENT IN THE NORMALIZATION OF SINO-U.S. RELATIONS. SHORT OF THAT, THE CHINESE WOULD WELCOME SIGNS FROM US THAT WE WANT TO MOVE AHEAD. THEY WOULD PROBALBY BE NEGATIVE TOWARD ANY SUGGESTION THAT WE ARE CONTENT WITH THE RELATIONSHIP AS IT STANDS.

8. WHILE THE NEAR TERM AND DIRECT SOIVET THREAT TO CHINA
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WAS PLAYED DOWN, AND EVEN REFUTED, PEKING CONTUNED TO EMPHASIZE THE SOVIET UNION'S LONG-TERM AMBITIONS, THE IMPOSSIBILITY OF DEALING WITH MOSCOW, AND THE USSR'S AGGRESSIVE INTENTIONS TOWARD EUROPE AND ITS NAVAL BUILD-UP AROUND THE WORLD. THIS LINE WAS RELENTLESSLY PURSUED IN PRIVATE TALKS WITH VISITING FOREIGN LEADERS, IN THE CONTINUING STREAM OF ANTI-SOVIET POLEMICS IN CHINESE MEDIA, AND IN MAJOR PRC PRONOUNCEMENTS AT THE UN AND OTHER INTERNATIONAL FORUMS. DOUBTLESS THE CHINESE REMAIN CONCERNED OVER THE SOVIET THREAT TO THEM,BUT THEY ARE ALSO CONCERNED THAT THIRD PARTIES ASSESS THE SOVIET THREAT MORE BROADLY, AND NOT POINT IT NARROWLY AT CHINA'S NECK.

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9. THE HELICOPTER INCIDENT WAS THE MAJOR EVENT DURING THE PERIOD IN SINO-SOVIET RELATIONS, BUT CHINESE CENTRAL MEDIA REMAINED STRANGELY SILENT AFTER PEKING'S INITIAL ANNOUNCEMENT. PRESUMABLY THE CHINESE ARE SAVING UP FOR A PROPAGANDA BARRAGE WHICH WILL RECORD THE TRIAL OF THE CAPTURED CREWMEN AND POSSIBLY THEIR EXPULSION. IN ANY EVENT, THE EPISODE IS BOUND TO BE MADE USE OF BY PEKING. THE CHINESE ARE AWARE THAT THEIR DOMESTIC POLITICS HAVE AGAIN AROUSED CUROSITY AND HOPES IN MOSCOW AND PART OF PEKING'S CONFIDENCE IN FACING DOWN THE SOVIETS MAY LIE IN ITS CALCULATION THAT THE USSR IS UNLIKELY TO COMPROMISE THE POSSIBILITY OF SOME FAVORABLE TURN OF EVENTS INSIDE CHINA--HOWEVER REMOTE--BY ADOPTING A MORE THREATENING POSTURE. INDEED, THE CURRENT LEADERS IN PEKING MIGHT WELCOME SOME SOVIET ATTEMPT AT RETALIATION IN ORDER TO FURTHER EXPUNGE PRO-SOVIET FEELING IN CHINA.

10. IN LATE JUNE CHIEF SOVIET BORDER TALKS NEGOTIATOR ILICHEV RETURNED TO PEKING AFTER ABOUT A YEAR'S ABSENCE. ACCORDING TO A USLO REPORT THE CHINESE VIEWED THE RETURN AS A TRANSPARENT SOVIET EFFORT TO INDICATE TO THE U.S. DURING THE MOSCOW SUMMIT TALKS THAT THE SOVIETS HAD AN OPEN LINE TO PEKING. WHILE MOSCOW REPORTEDLY HAS RAISED NO NEW PROPOSALS WITH THE CHINESE, ILICHEV'S RETURN REPRESENTS A REVERSAL OF THE PREVIOUS SOVIET POSITION THAT THEY WOULD NOT RETURN TO THE NEGOTIATING TABLE UNTIL PEKING REPLIED TO EARLIER RUSSIAN PROPOSALS. THIS LATEST MOVE FOLLOWS A SERIES OF APPARENT SOVIET CONCESSIONS MADE DURING THE PAST YEAR TO WHICH THE CHINESE APPARENTLY HAVE NOT RESPONDED.

11. ON SEVERAL RECENT OCCASIONS CHINESE LEADERS DESCRIBED PRC RELATIONS WITH JAPAN AS "PU TSOU" (NOT BAD). ACTUALLY THEY WERE BETTER THAN "PU TSOU." THE CHINESE INDICATED THAT THE SIGNING OF THE CIVIL AIR AGREEMENT HAD OPENED THE DOOR TO A SERIES OF OTHER SINO-JAPANESE ACCORDS, INCLUDING A PEACE TREATY. ALTHOUGH GOVERNMENT-TO-GOVERNMENT FISHING AND TRADE NEGOTIATIONS HAVE RUN INTO FISHING LIMITATIONS AND PRICING OBSTACLES AND THE CONFIDENTIAL

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JAPANESE NEGOTIATORS ON FISHING ISSUE HAVE RETURNED HOME, OVERALL ECONOMIC RELATIONS ARE FLOURISHING. TRADE WITH JAPAN CONTINUED TO BOOM AND JAPANESE DELEGATIONS OF ALL DESCRIPTIONS FLOWED INTO PEKING IN AN EVER-WIDENING STREAM. DESPITE CONTINUED MEDIA RECALL OF OLD JAPANESE CRIMES AGAINST CHINA AND OCCASIONAL WARNINGS ABOUT THE ACTIVITIES OF A HANDFUL OF JAPANESE "RIGHTISTS," PEKING STILL CARRIED RELATIVELY FEW NEGATIVE ARTICLES ON INTERNAL JAPANESE AFFAIRS. INSTEAD, SINO-JAPANESE FRIENDHSIP WAS HIGH-LIGHTED BY SHIP TOURS AND SISTER CITY BONDS. PERHAPS MOST SIGNIFICANT WAS THE ABSENCE OF CHINESE CRITICISM AT THE UN SPECIAL SESSION OF JAPAN'S ECONOMIC ROLE IN ASIA.

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12. PEKING DESCRIBED THE UN SPECIAL SESSION AS A "MILESTONE OF FAR-REACHING SIGNIFICANCE." THE CHINESE SAW THE DRIVE FOR REFORM OF INTERNATIONAL ECONOMIC RELATIONS AS PROVIDING CHINA STRATEGIC BENEFIT AS WELL AS SOME ECONOMIC ONES OVER THE LONG RUN ANETHEY MOVED TO ACCENTUATE THEIR ROLE AS A MEMBER OF THE THIRD WORLD. CHINESE BEHAVIOR AT THE CARACAS LOS CONFERENCE DEMONSTRATED THE PRIORITY PEKING HAS ASSIGNED TO THE ENHANCEMENT OF ITS CLAIMS AS A THIRD WORLD STANDARD BEARER. IN FURTHERANCE OF THIS GOAL, PEKING ROLLED OUT THE RED CARPET SEVERAL TIMES EACH MONTH TO WELCOME THIRD WORLD LEADERS. IN THEIR COMMENT ON THIRD WORLD ISSUES HOWEVER, THE PRC DID NOT PLAY UP THE RICH-POOR SPLIT BUT AS EXPECTED HEAPED RESPONSIBILITY FOR ALL THE TROUBLES OF THE DEVELOPING COUNTRIES ON THE SUPERPOWERS, PARTICULARLY THE SOVIT UNION. CHINA'S INSISTENCE ON THIS LINE TOGETHER WITH A NUMBER OF OTHER CONSIDERATIONS UNDERSCORED THE GULF THAT STILL SEPARATES THE PRC FROM THE NON-COMMUNIST NATIONS OF AFRICA, ASIA AND LATIN AMERICA.

13. THE PRC'S IMPLIED PREFERENCE FOR A CONTINUATION OF THE FIGHTING IN MOZAMBIQUE AND ANGOLA RATHER THAN A NEGOTIATED SETTLEMENT, REFLECTED ITS POWER POLITICS APPROACH TO PROBLEMS OF THE THIRD WORLD. IN THE MID-EAST, HOWEVER, THE CHINESE CONTINUED TO MANEUVER INTO A MORE FLEXIBLE POSITION IN REGARD TO THE ARAB-ISRAELI CONFLICT, WHICH THEY ALSO PROBABLY WOULD PREFER TO REMAIN UNSETTLED. THE PRC PUT THE BEST FACE POSSIBLE ON THE DISENGAGEMENT AGREEMENTS AND ON THE SUCCESSFUL U.S. DIPLOMACY, PORTRAYING THESE AS FURTHER SIGNS THAT SOVIET INFLUENCE WAS SERIOUSLY SLIPPING IN THE MID-EAST. IT WAS AGAINST THIS BACK-GROUND THAT PEKING GAVE STRAIGHT NEWS ACCOUNT TYPE COVERAGE
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TO PRESIDENT NIXON'S VISIT TO THE MIDDLE EAST. AS HAPPENED A YEAR AGO A HIGH-RANKING CHINESE OFFICIAL INDICATED THAT CHINA DID NOT DISPUTE ISRAEL'S RIGHT TO EXISTENCE. NEVERTHELESS, PEKING CONTINUED TO SKIRT THE ISSUE OF A PERMANENT PEACE IN THE AREA AND TO WARN OF GREATER TURMOIL.

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14. MEANWHILE WITH THE LONG VISIT TO THE PRC OF KHIEU SAMPHAN,

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PEKING STRENGTHENED ITS HAND WITH THE KHMER INSURGENT ORGANIZATON AND HAS BEEN GIVING MUCH LESS ATTENTION TO SIHANOUK AS ITS MAIN CARD IN CAMBODIA. A MILITARY AID AGREEMENT WITH THE RGNUK WAS OPENLY ANNOUNCED, SUGGESTING THAT CHINA DOES NOT FEEL THIS VIOLATES THE PARIS AGREEMENT OR ELSE THAT CONTINUED U.S. AID FOR PHNOM PENH HAS REMOVED RESTRICTIONS ON PUBLIC ACKNOWLEDGE-MENT OF PRC AID. IN ANY EVENT, THE CHINESE APPEAR REASONABLY CONFIDENT THAT THE EFFECTS OF THE CONFLICT IN CAMBODIA CAN BE CONTAINED.

14. ELSEWHERE IN ITS OWN ASIAN BACKYARD, CHINA CONTINUED TO PUSH FOR RELAXATION OF TENSION. AFTER SEVERAL YEARS OF PREPARATION, THE BREAKTHROUGH IN PEKING'S DRIVE FOR ACCOMMODATION WITH NON-COMMUNIST SOUTHEAST ASIA WAS MARKED BY THE ESTABLISHMENT OF DIPLOMATIC RELATIONS WITH MALAYSIA. PEKING'S HOPE OF SHAKING OFF THE OVERSEAS CHINESE ALBATROSS WAS REFLECTED IN ITS FOR-BEARANCE OF DUAL NATIONALITY AND ITS DECISION TO DENY OVERSEAS CHINESE STATUS TO THOSE TRAVELING ON PASSPORTS OF OTHER COUNTRIES. THE CHINESE SEEMED OPTIMISTIC THAT THE OTHER SEAN STATES WOULD FOLLOW MALAYSIA SOONER OR LATER. LIKEWISE, IN SOUTH ASIA THE PRC WELCOMED THE INDO-PAK BANGLADESH AGREEMENT AND INDICATED ITS OWN DESIRE TO ESTABLISH RELATIONS WITH DACCA AND IMPROVE THIES WITH NEW DELHI. PEKING REACTED CALMLY TO THE INDIAN NUCLEAR TEST, INDICATING PRVATELY THAT IT DID NOT HAVE ANY STRATEGIC SIGNIFICANCE NOR WOULD IT EFFECT THE BALANCE OF POWER IN SOUTH ASIA.

15. FINALLY ON FOREIGN TRADE, DOMESTIC CRITICISM OF TOO MUCH RELIANCE ON FOREIGN TECHNOLOGY AND WARNINGS AGAINST ACCEPTING SHODDY GOODS FROM ABROAD CONTRIBUTED TO TOUGHER ATTITUDES BY CHINESE NEGOTIATORS. BY THE END OF THE QUARTER, HOWEVER A LULL IN MAJOR PALNT IMPORT NEGOTIATIONS HAD BECOME OBVIOUS, AND IT WAS PROBABLY ATTRIBUTABLE PARTLY TO THE CURRENT CRITICISM MOVEMENT AS WELL AS PARTLY TO ECONOMIC FACTORS SUCH AS, FOR CONFIDENTIAL

EXAMPLE, PRICE RISES AND UNCERTAINTIES ABOUT FUTURE PRICES OF FOREIGN PLANT AND EQUIPMENT. IN THIS CONTEXT THERE APPEARED THE FIRST ISSUE OF CHINA'S FOREIGN TRADE, THE RESURRECTION OF A PRE-CULTURAL REVOLUTION MAGAZINE POSSIBLY DESIGNED TO REASSURE THE FOREIGNER. FOREIGN MINISTER LI CHIANG'S ARTICLE (HONG KONG 7807; PEKING 1177) PROBABLY REPRESENTS WORDING THAT ALL FACTIONS CAN NOW AGREE UPON. LEAVING LARGE MARGINS FOR ACTUAL LEVELS AND FOR MODES OF IMPLEMENTATION IT ALLOWS FOR INCREASING EXPORTS AND INCREASING IMPORTS ACCORDINGLY. IT DRAWS LIMITS, HOWEVER, IN SAYING THE PRC WILL NOT "GROVEL" FORE FOREIGN LOANS, ALLOW FOREIGN INVESTMENT, NOR ENGAGE IN JOINT VENTURES. NEVERTHELESS, OTHER PHRASES SUCH AS PAYING FOR IMPORTS IN ACCORDANCE WITH "COMMON INTERNATIONAL PRACTICE"--WOULD SEEM TO PERMIT INCREASED USE OF FOREIGN CREDITS AND THUS A HIGHER LEVEL OF IMPORTS.

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